

Minorities In Franchising

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L. Thornton Edwards -
President, Tec Foods, Inc.



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On our cover (from left to right): Sophia Berlie - Store 1615, Jonathan Gonzalez - Store 4197, L. Thornton Edwards - President, Tec Foods, Inc., Jennifer McCabe - Store 16393, Kasandra Brown - Store 4197

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Keith Salmon, Franchise Owner
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Opportunities For All: Expanding Franchising's Reach

For years, franchise businesses have given millions of Americans their entry into the workplace. The classic first job in this country is working behind the counter at a quick-serve restaurant chain or a retail store. It's true for Americans from every background.

By Leon Oldham



A generation ago, however, it was far less common to find minority Americans owning franchise businesses. Thankfully, that's changing, and changing fast. With greater opportunities and improved access to funding, minority ownership of franchise businesses is on the rise.

When you stop to think about it, that's only appropriate. It stands to reason that the same system that offers so many an entry into the working world should also offer anyone a ready entry into business ownership. Drive, dedication and talent know no color or creed—which is why so many Americans of diverse backgrounds have found franchising to be their route to a prosperous entrepreneurial career.

Franchising: An Effective Conduit

This is also an especially auspicious time for minority Americans to enter the world of franchising. Franchising is one of the fastest growing segments of the economy today—and with many suburban locales approaching the saturation point, attention is turning to America's populous yet underserved urban markets. Meanwhile, as the business world has finally “discovered” minority consumers, franchisors are increasingly realizing that ownership from the community is a very effective conduit to those target customers. One source today counts nearly 500 companies committed to the inclusion of minorities in their systems.

For the past year, I've been privileged to serve as chairman of the International Franchise Association's Minorities in Franchising Committee. This committee has been an advocate for increased awareness of franchising in minority communities for many years, conducting franchising seminars across the country so that everyone is aware of the opportunities available—and attainable—in franchising.

We have worked to help franchise companies understand the importance of reaching out to

minority communities, and the benefits of the minority-franchise market. And we have worked to help franchisees utilize the real estate, financing and training capabilities of community development corporations, to help grow their franchise systems.

Our mission is simple: to increase the success of minorities in franchising, whether they are franchisees, franchisors, suppliers or employees.

That's the focus of this special edition of *Franchising World*: the expanding opportunities of franchising for minority Americans. In the following pages, you'll find the latest strategies for structuring a business venture, tapping new financing mechanisms in urban markets, moving from employment to ownership, or even franchising your own business. I'll tell you—it's a lot more information in one place than I ever found when I was growing my business.

I know from personal experience the dramatic opportunity that franchising offers, both as a Church's franchisee, and as past director of minority affairs at AFC Enterprises. The opportunity to own my own business changed my life for the better—and I've seen it happen for many other minority Americans.

As the world's leading voice in franchising, the International Franchise Association has been a leader in extending opportunity to thousands of minority entrepreneurs. The result has been not just success for new franchisees, but for their suppliers, partners, workers and communities. More than ever, the face of franchising looks like the face of America, and that's very good news indeed.

So consider this special edition of *Franchising World* to be a special invitation. If you've ever wondered if there was a place for you in franchising, check it out. In these pages, you just might find your future. ■

Leon Oldham is Chair of the IFA Minorities in Franchising Committee and special assistant to the President for AFC Enterprises in Atlanta, GA. He can be reached at 770-353-3188.

A Candid Close-Up:

Mr. Keith Salmon, Money Mailer of Southern Prince Georges, MD

Keith Salmon hasn't always been in business for himself.

Before venturing out on his own, he was heading up the community relations department for a large furniture company, feeling trapped by the constraints of working in the corporate world.

On the day Keith went in to negotiate his contract, he decided that he needed to make a change: "What frustrated me was that they did not follow through with the increase they promised in my salary. That very day I officially left the company and went straight to the library to begin researching franchise opportunities."

Keith set out to find an opportunity that would allow him to determine his own income, be in charge of his own financial future, and help other minorities in his community. In addition, Keith also wanted a flexible schedule so he could spend more time with his twins and offer them a better life.

This led Keith to Money Mailer, a quality leader in the \$47 billion direct mail industry since 1979. Now 13 years later he's still going strong, operating nine zones and carrying over 200 active clients. "I purchased an existing franchise in an area that was middle-to-low income, so it was challenging for me to get things going in the beginning. But now my finances and family life have never been better. Money Mailer has allowed me to spend time traveling with my kids,



As a Money Mailer Franchisee, Keith Salmon has the freedom and flexibility to be with his family, while helping businesses in his community grow.

coach my son's basketball team and help other minorities in my community reach their full potential."

As a Money Mailer franchisee, Keith works in his local community inspiring other minority business owners to grow through advertising. "I have been able to use Money Mailer to educate other business owners on the power of direct mail and its proven track record for increasing success and growth in business development. It has been really exciting to watch other minorities achieve their dreams and enjoy their success, knowing I had a hand in making it all happen."

Due to the guidance and support that Money Mailer has given Keith over the years, he now has everything he once hoped for. Money Mailer has provided

Keith with a flexible lifestyle, allowing him to spend more time with his children, financial success and the source to help his community through the power of direct mail.

For more information about the opportunity to own your own Money Mailer franchise, call 800.596.2453 or visit www.moneymailer.net



About the International Franchise Association

Established in 1960, the International Franchise Association's (IFA) mission is to protect, enhance and promote franchising. It is the oldest and largest trade group representing those operating under this business model—some 30,000 franchisors, franchisees, consultants, academics and franchise associations around the globe.

This year, the association elected the first franchisee in its history to serve as chairman—Steve Siegel, a Dunkin' Donuts franchisee and COO and CFO of KaBloom, a floral franchise.

Franchising is a strategy proven to grow businesses quickly—a strategy used by some 75 industries to develop national brands since the 1940s when franchising began in the U.S. Millions of people have opened their own businesses by buying a franchise. They've created thousands of jobs each year, helped develop local economies, and provided opportunities for minorities and women. U.S. franchise concepts are being increasingly exported to other nations to help stimulate their economies.

IFA not only serves as the "Voice of Franchising," but offers seminars, books and videos to teach current and potential franchisors and franchisees about setting up or buying a franchise. IFA helped the Federal Trade Commission set guidelines for franchisors to provide vital information to prospective franchisees; established a Code of Ethics to which all members must adhere; and endorses the National Franchise Mediation Program, which resolves disputes between franchisors and franchisees through less costly alternatives to litigation.

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Copies of *Franchising World* issues and articles also are available for purchase on 16mm microfilm, 35mm microfilm and 105mm microfiche from University Microfilms Inc., 300 North Zeeb Road, Ann Arbor, MI 48106-1346; (313) 761-4700. *Franchising World* is indexed in ABI/INFORM database. (800) 626-2823; Fax (502) 589-5572.

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Is Franchising Right for You?

With some 320,000 franchised small businesses operating in the U.S., collectively accounting for an estimated \$1 trillion in retail sales annually, franchising is a proven way to achieve the American dream of business ownership. Still, for prospective franchisees, success or failure could be determined by their own actions.

From the International Franchise Association

Franchising's opportunities attract minorities, women, retired corporate employees, college graduates, and others who might find operating a franchise a satisfying way to be self-employed, while benefiting from a support network. Franchisees brought together under one trademark have advantages that independent business owners may not, such as group advertising and buying power. But running a franchise is not a ticket to Easy Street. Before buying, prospective franchisees should ask themselves the following questions.

Am I willing and able to take on the responsibilities of managing my own business?

While franchisors provide ongoing training and support, franchisees must manage their business, which means long hours and hard work. Typical work weeks are 60 to 70 hours, and prospective entrepreneurs must be willing to handle a wide range of duties, from hiring and firing employees to pacifying unsatisfied customers.

Will I enjoy the franchise?

Future franchisees should invest in a business that is in an industry they will enjoy for the next 10 years, which is the typical length of most contracts. They should determine their interests and the types of businesses they might enjoy. Visit IFA's Franchise Opportunities Mall Online at www.franchise.org to view a database containing hundreds of concepts in 75 industries. Search the mall by company name, industry category or investment level.

Am I willing to completely follow the franchisor's system?

When a franchisee displays the sign and trademark of a franchise, he or she is

telling customers they can expect the same experience as in every other location of that system. That, in fact, is the key to franchising's success. People who do not like to conform to a predetermined formula should be very careful about buying a franchise.

Am I good at interacting with people?

Strong relationships must be built with the staff at corporate headquarters, upon whom prospective franchisees will be relying for help for the life of their contract agreement. Also, one franchise owner who fails to meet the system's customer service standards can be a detriment to the entire system, whose reputation is on the line.

Can I afford the franchise?

One of the major causes of business failure is under-capitalization. While the franchisor will be able to give a good idea of start-up costs, the prospective franchisee will need enough money to not only open the business, but run it until it turns a profit. For some, that may take a year or longer.

Have I studied all legal documents?

Franchisors are required to prepare and make available a comprehensive disclosure document that contains more than 20 items of information about the company, the names of its founders and top executives, details about previous or pending litigation, and the names of current franchisees and those who have left the system within the past 36 months. Prospective franchisees should study this document carefully with the help of an attorney trained in franchise law. As a protective measure, federal law stipulates that no franchisor can accept payment from a franchisee without providing a minimum of 10 days to review all disclosure documents.

Search a database of franchise attorneys at IFA's Web site, www.franchise.org, and click on Supplier Business District.

Does the franchise I am considering have a track record of success?

The prospective franchisee should get to know the principal directors of the company he or she is considering; i.e., learn their business background and how profitable their franchise has been. The disclosure document contains this information. It is a good idea to have an accountant review the company's financial analysis and examine how long it has been in business. A new franchise may offer the opportunity to get in on the ground floor of a cutting-edge concept, but it might also mean that the franchisor has not had sufficient experience to fully develop the system.

Are other franchisees generally happy and successful?

The disclosure document will list all other franchise owners. It is worth the time it takes to contact a number of them to ask if they have received adequate training, if they would buy the franchise again, if their business is profitable, and if they have any advice.

Do I have family support?

Managing a franchise is a full time job requiring sacrifices of personal and family time. Family members must understand that the franchisee will have demands on his or her time and should be supportive of the decision to buy a franchise. ■

"Is Franchising Right For You" is one of a series of articles prepared by the International Franchise Association to aid prospective franchisees in their search. This and other articles can be found at www.franchise.org.



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Why One of the First Black Coaches in the National Football League Made Golf His Business

As one of the first black coaches in the NFL, Earnel Durden spent twenty years coaching football teams including the LA Rams, Houston Oilers, and the San Diego Chargers. In 1987, after fourteen years with the Chargers, Earnel embarked on an entrepreneurial path focused on owning and operating several General Motors dealerships. As a prominent member of the business community, he participated in several charity golf tournaments each year.

Playing in these tournaments led to an appreciation for golf.

It was that appreciation and his personal experience around golf training that led him to the business opportunity of Parmasters Golf Training Centers, the world's first year-round, indoor golf training center franchise.

"I chose to get involved with Parmasters because it offers a unique product", states Earnel. "When I've gone to golf facilities to take golf lessons, I found it was not individualized, and unless you paid top dollar, it lacked privacy. At Parmasters, customers enjoy private, affordable golf lessons in a non-intimidating environment. And because we teach a proven golf method that guarantees results, we believe we can turn frustrated golfers into avid golfers. With improved results, they'll enjoy doing it and doing it well."

In researching a business to invest his time and money in, Earnel takes a community approach. "When I'm looking at getting involved in a business,



Earnel coaching with the Chargers

Father & Son,
Earnel & Allan
San Diego, CA



Parmasters' short-game area

the number one thing I look for is how that business serves and meets the needs of the community". And Earnel walks his talk. In addition to numerous public service appearances on television, he is actively involved in local youth programs and conducts public speaking engagements at high schools, community colleges, and the YMCA. Earnel encourages other entrepreneurs to do the same.

This 'community approach' drives his long-term vision for Parmasters San Diego. "I envision Parmasters becoming a center in the community", says Earnel. "A place people feel comfortable learning to play golf as well as gathering with friends and family. And it will be a family friendly place. For example, with the influence of golfers like Tiger Woods, more and more children want to learn to golf. Problem is children are often frowned on at regulation golf courses because it's felt they slow down the pace of play. At Parmasters children will learn to have fun, hit the ball straight, and their speed of play will improve so golf courses

will be happy to have them."

Earnel's business philosophies parallel his extensive coaching experience. "There's not a day that goes by that I don't call upon some experience that I learned as a coach and a player. I believe that the values and ethics necessary to be successful in sports are the same values and ethics required to be successful in business, and life in general".

And just like the many doors he opened for African Americans coaching in the NFL, Earnel continues to

break new ground. He is the first Parmasters Area Developer and Franchise Owner. Earnel owns the rights to six Parmasters Golf Training Center sites in San Diego, California. The first of these 10,000 square foot Golf Training Centers is under development and scheduled to open early 2003.

Earnel is married to his long-time wife June, and together with his son Allan, runs Parmasters San Diego. Earnel has two other sons Michael and Kevin, five grandchildren, and has made San Diego his home for over 30 years. With a strong faith, a close family, and a drive to improve the world around him, Earnel continues to inspire others to follow in his footsteps. ■

Parmasters Golf Training Centers is the world's first year-round indoor golf training center franchise. More information can be found online at www.parmastersgolf.com or by calling 1-800-663-2331. Mr. Durden can be reached at earnel_durden@parmastersgolf.com.

Choosing the Right Franchise... A Daunting Task Simplified

By Alfred Reed and Altaf Kagalwalla



Alfred Reed **Altaf Kagalwalla** have looked at starting your own business and decided that you would rather go the safer route of owning a franchise to receive the training and support you need for a faster ramp up time.

Now, your next question is: "Which franchise is right for you?"

Whether you are searching alone or with the help of a coach or advisor, choosing the right franchise can be a daunting task. A quick search through the Internet brings up thousands of opportunities, so where do you start?

We believe that you start by defining what is important to you. Every individual is different and has different needs, likes, dislikes and skills. Assessing who you are and what you desire is the most important step in choosing a franchise. Evaluating the actual opportunity comes only second and cannot be done unless you know what you want.

Ask the Hard Questions

Assessing who you are and what you desire is not an easy task. It requires introspection to a degree that many of us have not ever done before or at least do not do very often. We must ask questions such as the following: What do I want in life? Do I want a home-based or a retail business? How much do I want to work, how many hours a day, how many days a week? Do I want to work in the business or on the business? What type of skills do I have that I can use in the business? What financial constraints do I have? Where do I want to work?

Do I want to work in my community or do I want my services to be more widely available? The latter question is especially relevant for minorities. Many of us want to use our work to contribute to our communities. If this is your case, then you need to make sure that the business you choose meets this need.

Assessing who you are and what you desire is not an easy task.

Asking these types of questions will help you define your strengths and weaknesses, your desired lifestyle and the business that will help you achieve it. Say you decide you want to have a business you can run from your home. Home-based businesses are an increasingly popular alternative. But, how do you know if this is a good choice for you.

Would working from home make you feel isolated? Would the business allow you enough people interaction? Are you self-disciplined? Would you know when to open "shop" and when to close "shop?"

Without the structure of an office environment you may fall in the trap of working too many hours or not working enough. Neighbors and friends, knowing that you now work from home, will have the tendency to stop by or call you to chat. Projects around the house will nag at you and you may decide to tackle them instead of the work that is waiting in the office.

On the other hand, you may have the tendency to work too long, giving up your family time. When the business starts affecting family activities, the business will suffer. Your family may begin to resent your business and, regardless of how much you enjoy what you do, you will be unhappy. Finding the right

(Continued on page 12)

(Continued from page 11)

balance between work and play when you work from home is a difficult task and not a challenge to be taken lightly.

If you decide that you need to work from an office outside your home or a retail environment, you need to ask yourself a new set of questions. A retail environment will provide less flexibility than a business services type of franchise unless you can run the retail business with employees. And, if the latter were the case, would you enjoy managing and overseeing employees? What happens when the employees do not show up? Would you be satisfied if you have to take their place and perhaps miss an important family event? These are the choices that you need to make when you look inward and define what you want and need in your life.

Now, Begin Your Search

Once you have a clear understanding of what you are trying to accomplish you can begin your search. Contact the franchisors and start learning about the business. What is the product? Do you care about the product or service you will be offering? What is the industry? Do you see a fit? How do they operate? Do you see yourself operating this business day in and day out for years to come? Will this product satisfy a need in your community?

If the business is going to operate in a community that serves minorities, you need to find out if this has been done before in the company and you need to talk to the people who have done it. If it has not been done, would the company provide the support you may need to enter a new market? Will the community accept the product? Is the franchisor flexible enough to modify the menu of services and/or products to serve that particular community if there is a need for such a change? Would they even be open to conduct a market study to determine if there is such a need?

Cultural and ethnic differences can

have a significant effect in the acceptance of products and services. The marketing messages and media that is used to promote those products and services becomes an important factor when trying to reach minorities. You must, then, find out where the franchisor stands in these issues. Lack of awareness or understanding of these concerns can mean trouble down the road. A business that is perfectly viable in mainstream America is not necessarily so in an ethnic neighborhood. Thus, if serving your community is part of your goals, you need to find out if the business will allow you to achieve this goal.

Financial Requirements

The financial requirements of the business are also an important consideration. You need to know not only the investment that is required, but also whether or not the business will be able to provide your financial goals. The franchisor can easily tell you the investment requirements. Keep in mind that there are many sources of financing for

franchising and that in most cases you need to have cash only for a portion of the total investment. Whether or not the business will meet your financial goals is a question for the franchisees. Franchisors are not allowed to make earning claims unless they disclose them in the Uniform Franchise Offering Circular (UFOC). Thus, the franchisees are the source for this information.

Franchisees should also be your resource for information about the quality of initial and ongoing training and support the franchisor provides, the culture of the organization, and the daily operating requirement of the business. Franchisors can also contribute to this information, but you need to ask the people who have invested in and operate these businesses.

A word of caution: Talk to several franchisees and make sure that you have a good sample. Share your concerns with them and ask a lot of

questions. Keeping your questions consistent from franchisee to franchisee will allow you to distinguish between personal opinions and facts.

Choosing the right franchise for you can be intimidating at first, but there are resources available to make this process easier. Just remember, first start with defining yourself and what you want to accomplish. Armed with this information you can then narrow your search.



Alfred Reed and Altaf Kagalwalla are business ownership coaches and franchise owners of The Entrepreneur's Source in the Chicago area. Reed can be reached at 773-285-0084 and Kagalwalla at 630-922-8585. The Entrepreneur's Source is a franchise organization that specializes in self-employment options, franchising information, education and training. For more information about The Entrepreneur's Source visit their Web site at <http://www.franchiseexperts.com>.



Accor's Ambassador Program: Reaching the Communities We Serve

With 3,700 hotels and 415,000 rooms worldwide, Accor is a global leader in the hotel industry has more than 75 years of lodging experience. In the U.S. and Canada, Accor represents upscale Sofitel and Novotel and economy lodging leaders Motel 6, Red Roof Inns and Studio 6. Of Accor's 1,200+ North American properties, 230 are Motel 6, Red Roof Inns or Studio 6 franchises.

Our Franchising History

Accor began franchising the Motel 6 brand in 1996. By July 2000, the chain was celebrating the opening of its 100th franchised location in Ruidoso, New Mexico. Red Roof Inns also began franchising in 1996 and joined the Accor network in 1999. Red Roof Inns achieved the 100th franchise milestone in July 2001 with the opening of the beautiful Ocoee, Florida location. 2001 was also a big year for Studio 6. This extended stay brand opened its first franchised location in 2001, just two years after the brand was introduced.

A Global Vision

With 147,000 associates in 140 countries, Accor has a global vision. And diversity is at the heart of our vision, our values and our successes. Our diversity mission statement complements and supports our overall vision:

"To be a truly inclusive organization that values and promotes the differences among our employees, guests, and business partners in the achievement of our business objectives."

Diversity is at the forefront of every facet of our business—from Human Resources and Training to Franchising, from Procurement to Sales and Marketing. Moreover, we devote a great deal of time and resources to external organizations both locally, as well as other national and community based agencies, in an effort to increase our visibility in the communities that we serve both in North America and worldwide. We believe that our community outreach is essential to the success of our overall diversity initiative.

The Accor Ambassador Program : Try Before You Buy

Our diversity philosophy is the springboard that helped create the Accor Lodging North America Ambassador Program. The program's first objective is to provide a glimpse of the possibilities in hospitality to

those who have little or no experience or understanding of the economy lodging industry. Through this one-on-one guided tour, a potential franchisee can experience what it might be like to be a franchisee before actually making that commitment.

This program is particularly aimed at minorities and women—those groups that haven't historically been in ownership positions within the hospitality industry. Our goal is to give you the ability to assess whether owning a motel is the right business for you.

If you choose to participate in the Ambassador program you would be assigned to a Corporate Ambassador. As a participant, you will travel to Dallas to meet with your assigned Corporate Ambassador and discuss the status of your franchise project and to determine those specific areas where you need additional education and guidance. Individualized guidance will be provided in areas of business development, such as site selection, business plan development and construction. In addition, the Corporate Ambassador will have bi-weekly communication with you to guide you through the franchise process.

Experience the Rewards of the Lodging Industry

The second goal of the Ambassador Program is to provide intensive field exposure that will offer "hands-on" experience in the economy lodging industry. If you choose to participate in the Field Intensive program, you will travel with an assigned Franchise Operations Director for one to two weeks. The concentration will be on property operations management and best practices.

Your cost for the Ambassador Program is limited to your actual travel and meal costs. If you choose to become a franchisee, you will continue to be supported by the Corporate Ambassador through the construction and opening of the franchised business.

We Want to Hear From You

With Accor's hospitality and operations expertise, a strong commitment to quality and an extensive support system, entrepreneurs have many reasons to consider investing with Accor.

For further franchise information, please visit our Web sites at www.motel6.com, www.redroof.com and www.staystudio6.com or contact us by telephone at (888) 842-2942. ■

What to Expect Throughout the Franchise Process

By Jeff Bevis, CFE



When searching for the perfect franchise, you will discover that every franchise concept has a process you will be asked to follow. Some are longer and more detailed than others are, but all are designed for mutual evaluation and fit. To help you navigate through this process, it is helpful to know what to expect along the way. The following steps can be used as a general guide.

Narrow Your Search

When you first start investigating your options, you will undoubtedly start with a broad number of concepts and then narrow your focus as your search progresses. The Internet is an excellent tool to gain basic information on a wide variety of franchise concepts, but don't be afraid to ask each franchise if there is more specific information they can send you. Every franchisor you speak with will ask about your background, experience, preferences and abilities. Be ready to discuss what you are looking for and why. Know what you want when it comes to your role in the business (full-time vs. part-time), whether your expertise will be applied in an operational or financial capacity (active vs. passive), and in what type of environment you want to start your business (home-based vs. outside office/retail).

Determine Basic Requirements for Each Franchise Concept

Once you've narrowed your search to a handful of concepts, make sure you evaluate the "threshold" requirements of each concept. For most franchise concepts, these will include financial requirements, timing expectations, your background and experience, available territories, owner-operator requirements (or lack thereof), and business struc-

ture factors (sole ownership, partnerships or corporations). For example, at Express Personnel Services, we require \$50,000 liquid capital, a strong credit history, the ability to obtain an additional \$70,000 to \$100,000 for working capital, and commitment to pursue the business within the next 3 to 4 months. Business structure and background are important to us, but these are not restrictive to having success in our franchise concept. Every concept will be different in this regard.

Complete the Franchise Application or Confidential Questionnaire

At some point, most franchise concepts will require you to complete an application or questionnaire via e-mail or fax. True progress and evaluation by both you and the franchise concept cannot be done without this exchange of information. This is a standard practice with every franchise system so don't be surprised with the emphasis here. It helps to indicate your level of seriousness and gives the franchise contact person a clear view as to how they need to help you evaluate and proceed with their concept.

Research and Interview

Research the industry of the franchise concept and evaluate the market factors where you are considering going into business. Current brand awareness, presence of other units, competition and growth areas should all be included in your evaluation process. Count on the franchise concept to assist you in obtaining much of this data, but there is no substitute for your own investigation. Remember, they will not make the decision for you. You should always call or meet with current (and former) franchisees of the concept under consideration. Dialogue with franchisees will prove invaluable to validate your perceptions and the level of support

you can expect to receive. Don't take this step lightly.

The Uniform Franchise Offering Circular (UFOC) and First Personal Meeting

This step will vary by concept as well, but take the time to read and understand the Uniform Franchise Offering Circular (UFOC). This is also referred to as the disclosure document. It must be offered on or before your first personal meeting with the franchise concept representative. Every franchise system must maintain this document and (in some states) register with each state in which they do business. Often an intimidating document, the disclosure document contains a comprehensive review of the services, support and systems that make up the franchise concept. It also contains the standard franchise agreement, exhibits and addendums all new franchisees will be required to sign coming into the franchise system. Keep in mind, you must be given at least ten days between the time you receive the disclosure document and the time you sign a franchise agreement with any company.

Business Plan Preparation and Financing

No matter the size or investment level of the franchise concept, you should prepare a business plan for your new venture. If a bank or financial institution is providing financing, a thorough business plan will be a requirement with your financing application. Be prepared for wide variation in the level of assistance provided by the franchise concept. Some will provide a template for completion of your own data while others will take a more active role in assisting you. Don't hesitate to ask how you can gain assistance to validate your plan.

Observation of Operating Unit(s) and Visit to Franchise Concept Headquarters

Make sure you include your own visit and evaluation of an operating franchise



unit. This step is critical to your understanding of how the franchise really works on a day-to-day basis. If this is not included in the franchising process of your chosen concept, consider this as an extra step to again solidify your perceptions of the business. Many franchise systems conduct a "Discovery Day" for franchise candidates at this point in the process. It may revolve around meetings at the franchise system headquarters, or at a designated field location, where department heads, top executives, or critical support personnel will confirm this is the right fit for both parties. This should be your final step to eliminate any hesitancy in joining the franchise system. Franchise agreements are often presented to you at the close of this day if you and the franchise system mutually approve your new venture together. However, the law dictates that you must be given at least five days between the time you are presented with your franchise agreement and the time you actually sign this agreement.

Signing Franchise Agreements and Payment of Initial Franchise Fee

Once you sign your franchise agreement, be ready to make payment in full at this point. Some franchise systems accept partial payment here with an agreed schedule for the balance of the initial

franchisee fee as you near your grand opening date. Second thoughts or hesitancy on your part should not arise at this point. However, if this occurs, call or meet with your franchise contact to review. It is human nature for all of us to have butterflies entering into a new venture.

New Franchisee Training and Preparation of Opening Your New Unit

This step will also vary widely, but is especially critical to your chances of success. From weeks spent working in a operating unit, to five to fifteen days or more in a classroom setting, new franchise training follows differing paths based upon the concept you select. Some concepts will provide a

mix of classroom and field settings to best position you for success. Give this your full attention. Utilize every resource your franchise system offers to help you juggle all of the demands you will be faced with during this training/preparatory time. Be ready to work for at least six to eight weeks to complete this step alone.

Open for Business

You made it...and now the fun really begins. Be ready to devote the hours and attention needed to maximize your investment for greatest return. Your franchise system will likely have a field support person on-site with you within your first few weeks in business. This is an added check and balance to your preparation, so welcome it. Stay in regular contact with your franchise support system and other franchisees in your system. The success of your franchise unit will be the result of continual efforts by both you and your franchise system. The initial evaluation process will vary by franchise concept, but in all cases, it must be a mutual fit to have the best chance of success. ■

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From Dream to Reality:

Franchise companies are creating programs to turn employees and prospects into franchisees.

By: Sonya Thorpe Brathwaite

What happens to a dream deferred?

Does it dry up

Like a raisin in the sun?

Or fester like a sore—

And then run?

Does it stink like rotten meat?

Or crust and sugar over—

like a syrupy sweet?

Maybe it just sags

like a heavy load.

Or does it explode?

— Langston Hughes

Many people dream of owning their own franchised business. They may have the will to succeed and the necessary business skills. But their dream may be deferred far longer than planned because of a lack of capital.

That's why some franchise companies have begun offering programs to move current employees and prospects into franchise ownership more quickly. From staffing and plumbing services, restaurants to dating services, franchise companies are rising to the challenge.

The reasoning behind this trend is simple, says Ed Reid, national franchise sales director of Lawn Doctor. "One of the biggest problems we have in the franchise sector is finding and retaining good people. So we try to do everything we can to keep good people in the system."

This reality can translate into big opportunities for loyal employees. Dejon Clark, of Eugene, Ore.

was able to own his own business at age 23 with the help of the HIRE (Hiring Individuals, Recruiting Entrepreneurs) program started by The Dwyer Group. HIRE allows employees of any Dwyer Group franchise to gradually earn increasing discounts towards the purchase of their own franchise for each year they are employed. The Dwyer Group franchises concepts such as Mr. Rooter, Mr. Electric, Glass Doctor and DreamMaker Bath & Kitchen, just to name a few.

Clark started in Mr. Rooter's laborer apprenticeship program shortly after finishing high school. Within four years, he was managing the entire team of plumbers and getting on-the-spot training on the business side of the franchise, too. Through the HIRE program, he now owns a Mr. Rooter franchise. And he tells his employees about the HIRE program, as well. "It is an instant motivator," he said. "It allows everyone a fair chance."

Some franchise companies have programs designed for current employees as well as prospective franchisees. "Often our best candidates have the passion, the business skills, but not enough money," says Irene LaCota, president of "It's Just Lunch," a dating service franchise based in San Diego, Calif. "So our manager-partner program is designed to create opportunities for someone who qualifies in every way except financially."

Buying Options in a Franchise

The prospective franchisee is placed in a corporate office and works toward a particular sales target. The earnings from these sales can be used to buy "options" in a franchise with the company. Once the sales target has been met, the prospect has enough options to become a franchisee. The process is designed to take between three and six months, but some people reach their targets much sooner. "One of our franchisees earned her franchise in six weeks," says LaCota.

Six people have already graduated from the program in the past year, and a similar program was established for employees. The program has been so successful that 50 percent of the company's franchised units are owned by people who started out as "It's Just Lunch" employees. LaCota is very proud of this record. "I've been in franchising forever...and I've seen so many people with the skills to succeed turn away from franchising just because they didn't have enough money," she says. "I always thought 'I wish I could help them.' Now that I'm the owner of a franchise company, I can. We may sacrifice some of our short-term profits but we gain such incredible franchisees who are so excited and grateful to have this opportunity, they become our biggest cheerleaders."

Express Personnel Services is another company creating programs for experienced operators. The program, called the Entrepreneur in Training (EIT) Growth Program, is designed to assist franchise candidates who prefer time to learn the Express system prior to opening their own franchise. "It will also help us to better prepare new franchisees for a stronger start in the business," says Jeff Bevis, CFE, vice president of franchising at Express

Personnel Services. At the end of the training program, a credit of \$10,000 in working capital will be awarded to the EIT graduate upon signing his or her franchise agreement.

Prospective franchisees with at least 4 to 6 years of business experience can apply for the 12 month training program. However, candidates still must meet minimum liquidity requirements (currently \$50,000) for a new franchise, so this is not intended to be a draw for prospective franchisees who do not have enough capital to get started. EIT candidates work in various Express offices within the territory they will be buying at an agreed-upon salary. "Our first candidate is on track to graduate five months ahead of schedule in August, 2002," says Bevis. "We are confident that he will do very well in his new franchise."

Keys to Success

Cendant Corporation—franchisors of Days Inn, Ramada, Howard Johnson, Super 8, and more—has created a program specifically for African-American, Hispanic, and Native American entrepreneurs interested in hotel ownership. Called Keys to Success, the program was designed to provide new franchisees with the resources, support and information to assist him or her as a new Cendant franchise owner. The highlight of the program is a development allowance of up to \$150,000, payable upon the official opening of the hotel.

"The Keys to Success program was developed because we recognize the financial challenges that entrepreneurs face—especially minority entrepreneurs—when trying to develop a new business," said Nicole Johnson-Reece, Cendant's director of multicultural marketing and sales. "This program can help to make hotel ownership more accessible to groups that, historically, have not been adequately represented in the ownership ranks."

Even if a company doesn't have a formal program, many companies work with existing employees and prospects to get them on the road to ownership. "Many franchisee prospects who are qualified financially do not have the restaurant experience needed to successfully run the business," says Brian Lacey, vice president, chief franchising and

development officer for Popeye's Chicken & Biscuits. "We try to match up one of our own qualified operators with prospective or existing franchisees interested in a partnership." This allows the prospect to start the business with an experienced operator at the helm, and allows the operator to get a piece of ownership that can translate into more ownership opportunities later on.

In the end, it all comes down to relationships. "If we meet someone who has all of the qualifications but not all of the money, we will assist them financially in becoming a franchisee," says Godfred Otuteye, chairman and CEO of Money Mailer. "Someone gave me a chance [when I was starting out], so I want to give them a chance to prove themselves as well." ■



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Taking It to The Next Level

Minority entrepreneurs have been making their mark on the world of franchising for several decades now, both as franchisees and franchisors. Increasingly, however, these successful franchise owner-operators are flexing their economic muscle by investing in multiple concepts or multibranding.

By Terrian Barnes

Gene Camarena, president, LaRaza Pizza, Inc. and a partner in Capital Management, and Thornton Edwards, president, Tec-Foods, Inc., are two very successful entrepreneurs who are changing the shape of franchising in ways once thought beyond the reach of Hispanics, African-Americans, and other under-represented ethnic groups.

Like many people, Thornton Edwards began his work-life in corporate America. With MBA in hand, he launched a successful career with several Fortune 500 companies, including Smith Corona, Colgate-Palmolive and Anheuser Busch. "In retrospect, I had an exciting position, earned a great salary, and had access to the corporate jet, but ultimately I knew I wanted to do more than just make money for someone else."

To Whom Much Is Given, Much Is Required

When Edwards had the opportunity to strike out on his own as an Eagle Snacks distributor for Anheuser-Busch, he took it, and built a thriving enterprise. He leveraged his 401(k) and worked out a financial package that enabled him to buy two distributorships in the Detroit area. But then in 1996, Anheuser-Busch decided to close down its snack food division. Edwards, as an exclusive distributor, had to scramble to keep his business alive.

"Success is never guaranteed and failure is never final," says Edwards.

"Success is never guaranteed and failure is never final," says Edwards. "I worked hard to rebuild my territory into one of the largest in the country. I found another product supplier, my retailers stuck with me, and I was able to keep my employees on



Thornton Edwards

the payroll as well as maintain our 2000-plus business accounts."

Although Edwards was able to recover from this unexpected upset, the incident prompted his decision to never again rely on a "one-legged stool." He began researching other opportunities, focusing on franchising. The concept of co-branding—two or more "brands" under the same roof—was of particular interest to Edwards because it would allow him to diversify his business portfolio. After careful planning, he sold his snack food business and became the owner-operator of several gas station-convenience stores in the Detroit area.

"There was clearly value in it for me," says Edwards. "I saw the advantage of being able to offer diverse products to attract customers 24 hours

(Continued on page 20)

(Continued from page 19)

a day. Co-branding allowed me to save operating costs through reduced overhead, and to provide more options for my customers."

Edwards saw an even greater opportunity to build his multibrand franchise operation by joining the quick service restaurant industry. "Yum! Brands, Inc. (formerly Tricon Global Restaurants) offers five leading concepts—A&W All-American Food Restaurants, KFC, Long John Silver's, Pizza Hut and Taco Bell—which appeals to my appetite for building a diverse business base," says Edwards. He currently owns 35 restaurants in the Detroit and Chicago regions, including KFC, Taco Bell, and a Pizza Hut Express. He has since sold his gas station-convenience store business but plans to acquire another strong concept within the next 12 months. Always open to new, lucrative opportunities, Edwards says, "I've reached a point in my business career where the deals now come to me."

"As it says in the Bible, to whom much is given, much is required," quotes Edwards. "I've been fortunate to have wonderful role models in my parents; a solid support system provided by my wife and children; and a trusted team of employees—all of which have contributed to my successful track record as an entrepreneur."

Edwards believes it's important to repay some of that good fortune by working to improve the quality of life for those around him; by sharing what he's learned with aspiring entrepreneurs; and by being actively involved in supporting the health and economic well-being of his local community. "I hope through my example," Edwards states, "that African-American teenagers and minority young adults will see entrepreneurship and franchising as viable options for the future."

The Importance of a Role Model

Had it not been for a strong dislike of chemistry, Gene Camarena might have become a physician, instead of a leading Hispanic businessman and franchisee. Camarena owns two Marriott hotels—one in Las Cruces, New Mexico and one in Lawrence, Kansas—and owns and operates 20 Pizza Hut restaurants. He's

currently planning a third Marriott hotel scheduled to open within the next year, and a fourth to open in late 2003-early 2004.

Born and raised in Kansas, Camarena's most important role model and inspiration was his father. During the strife-ridden '50s, Camarena's dad—a second generation Mexican-American—obtained both undergraduate and master's degrees, served on the city council and school board, and was a highly respected leader in his community. His greatest gift to his children was a solid education. His son, Gene, completed undergraduate school and obtained a master's degree in Business Administration from Harvard University, before joining Pizza Hut Corp., in the finance and accounting department.

"It's important to find mentors who will encourage you," says Camarena.

During his four and a half years as a Pizza Hut employee, Camarena met one of his first business role models, then-Pizza Hut CFO Larry Lundy. Camarena and Lundy both went from being employees to becoming Pizza Hut franchisees during the same time period, and encouraged and supported each other through the process.

"It's important to find mentors who will encourage you," says Camarena, "and who will help you gain enough confidence to make the leap into entrepreneurship. When I became a franchisee, I had a wife, a three-year-old, and another child on the way. Borrowing that much money was a big risk for me at that time, but I knew I wanted the opportunity to determine my own success." Camarena says it's the best decision he's ever made.

Camarena launched his career as a franchisee by acquiring existing Pizza Hut restaurants in the Texas panhandle. He then leveraged his multiunit operational experience with Pizza Hut to become a Marriott franchisee. "Marriott and Pizza Hut both attracted me because they are the leaders in their respective industry segments," states Camarena.

He and his partner, Ruth Brito Mackey, will continue to look for opportunities to partner with leading brands. "Now that we've got the process down—you have to be properly capitalized, have a detailed business and financial plan—and have some experience under our belts, it's much easier to attract good deals as well as bank financing. We also have an experienced employee pool to pull from for project start-ups."

One of the toughest challenges for restaurant and hotel franchisees is retaining good employees. Camarena stresses that it's important to keep your best employees challenged and to give them increasing responsibility.

He proudly tells the story of grooming an employee who started out doing odd jobs as a maintenance manager for one of his Pizza Hut restaurants, and who now just recently completed construction on a brand new million dollar restaurant—from the ground up. Camarena also stresses the importance of building strong business relationships and networks to long-term success. In addition to a talented and loyal workforce, Camarena maintains a network of professional advisors—accounting, legal, and tax—who are key to his enterprise.

Like Edwards, Camarena emphasizes the privilege of being able to give back to his community as one of the benefits of being a multibrand franchisee. His wife, Yolanda, is active on a number of local boards; helps raise funds for community projects; and serves as a mentor to at-risk Hispanic youth and others who are in danger of dropping out of high school.

"All in all, we've had a great experience," confesses Camarena. "I wouldn't change a thing." ■

Terrian Barnes is director of community diversity for Yum! Brands, Inc. She can be reached at 502-874-8359 or at the e-mail address terrain.barnes@tricon-yum.com

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A Conversation

with New York 12th District Congresswoman

Nydia M. Velázquez,

Ranking Democrat, House Committee on Small Business

If there's one thing both Democrats and Republicans can agree on, it's the importance of franchising and small-business growth and development to the nation's economic stability. *Franchising World* recently posed a series of questions to Rep. Velázquez, who is the first Puerto Rican woman elected to the United States House of Representatives. In February of 1998, she made history again when she was named ranking Democrat on the House Small Business Committee, making her the first Hispanic woman to serve as chair or ranking member of a full committee in the history of the House of Representatives.

The Small Business Committee has oversight on a wide array of programs and federal contracts totaling nearly \$100 billion annually. The committee has played a prominent role in community empowerment by promoting business growth and opportunity in economically depressed areas. It has also been active in working to streamline regulation and tax codes to allow small businesses to operate more efficiently.



FW: Franchised small businesses are gaining popularity around the world, but there is room for tremendous growth both in the U.S. and abroad. What can Congress do to help spur this growth, especially for prospective minority business owners?

Rep. Velázquez: Small businesses are the backbone of the U.S. economy. There are approximately 25 million small businesses in the United States today. They account for 75 percent of all new jobs added to our economy and half of our gross domestic product. One way to start a small business is by marketing a unique idea for a product or service. Another way is to use a model that has already been designed and tested. Using an existing idea or system—or franchising—is becoming more and more popular as small business owners seek to cut down on risk and ensure profitability.

In May 1999, the SBA's Office of Advocacy commissioned a study entitled, "Survey of Women and Minorities in Franchising and Financing Practices." The study found that women- and minority-owned businesses constituted a substantial percentage of small businesses nationwide, yet only a small portion were franchised operations.

The most effective way in which Congress can spur the growth of women- and minority-owned franchises—as well as all franchises—is to make sure the needs of small business owners are met and

their problems solved through legislative measures. As Ranking Member of the House Small Business Committee, I am committed to helping women and minority business owners break down barriers by opening up sources of capital for them, ensuring they get the technical and other assistance and support they need to start and grow their business, and making sure the Small Business Administration programs that help these groups are fully funded and operational.

FW: As the Ranking Democrat on the House Small Business Committee. What legislative accomplishment are you most proud of?

Rep. Velázquez: In the Small Business Committee, there is no Republican or Democratic agenda—we work together to help the engine of our economy—small businesses.

With that being said, a major victory for small businesses was won this past December. The 7(a) loan program, which is the SBA's most popular loan program, had not only been cut by the Bush Administration last year, but it had also overcharged borrowers and lenders almost \$1 billion.

I spent most of last summer working to restore funding to the 7(a) program. Then in December, I was able to work in a provision on a small business bill that passed both the House and Senate and was signed into law by the president to lower the 7(a) fees. This bill cut lender fees in half and made an across-the-board cut, slashing fees for all loans by an average of \$2,000.

FW: What are your top priorities for the remainder of the year?

Rep. Velázquez: For the remainder of the year, I want to do what I can to help small businesses through the recession and the economic fallout from September 11. I want to make health care more affordable and pensions more accessible for small businesses. I am working to reduce the regulatory burdens that weigh them down, give them greater access to the federal marketplace, and provide them with real tax relief through targeted small business provisions instead of corporate giveaways.

FW: What is your position on the need for terrorism insurance legislation?

Rep. Velázquez: The terrorist attacks of September 11 had a devastating effect on this nation – and on our economy. New York City small businesses were crippled, entire industries were shut down, and this caused a ripple effect that hurt many small businesses across the country. Given the havoc these attacks wreaked on this nation's small businesses, I believe that terrorism insurance legislation should be passed into law, with specific provisions that aim to help our nation's entrepreneurs survive in case of a subsequent attack. As a senior member of the House Financial Services Committee, I helped to pass terrorism legislation out of this committee last November. This legislation passed the House but still awaits Senate consideration before it can be sent to the President. (In late June, the measure received U.S. Senate approval.)



FW: You're a big supporter of the Small Business Administration's 7(a) loan program. What efforts are you undertaking to make sure it is fully funded?

Rep. Velázquez: Due to an incorrect subsidy rate calculation that has plagued the 7(a) program for more than a decade, this program will experience substantial lending shortfalls this year if swift action is not taken. The subsidy rate problem is nothing more than a stealth tax on small businesses. I am currently working with the Small Business Committees in Congress, the Office of Management and Budget and the Small Business Administration to save the 7(a) program. I have called on the Office of

Management and Budget and the Administration to fix the subsidy rate so that the 7(a) program can provide the much-needed capital to small businesses without overcharging them and lenders.

FW: What advice would you give the franchising community in order to increase the number of minority franchisees, especially Hispanics, in our country?

Rep. Velázquez: Small business growth hit an all time high in the 1990s as women and minorities opened small businesses in record numbers. According to a recent SBA report, minorities now own 15 percent of American businesses – and it is Hispanic businesses – including businesses owned by Hispanic women – that are leading the way.

Hispanic businesses more than doubled during the 1990s to over 1.2 million companies. And no U.S. demographic group starts as many businesses as Hispanic women. Just ten years ago, approximately 250,000 businesses were owned by Latinas. This year, it is estimated that Latinas will own approximately 470,000 businesses – an increase of 47 percent.

I want to ensure such trends continue. The advice I would give to all minority franchisees is to seek out and utilize all the resources they have at their fingertips – but may not know it – including the Small Business Administration's programs targeted to minority and women small business owners.

Also, I would like to tell them not to get discouraged. There are many members of Congress – like me and on both sides of the aisle – who know the important role small businesses play in our economy. We are working to make it easier for you to own and operate a business in today's global marketplace. You have a strong voice here in Congress. Your feedback is always welcomed and my door is never closed to you. ■

Due to recent events, written correspondence to Capitol Hill has been severely interrupted. Correspondence to Rep. Velázquez should be sent by fax to 202-226-0327. To learn more about Democratic initiatives of the House Small Business Committee, visit the Web site at www.house.gov/smbiz/democrats.

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Minority Executives at the Top of Their Game

By: Sonya Thorpe Brathwaite



Godfred Otuteye

Like most boys growing up in the small West African fishing village of Akplabanya, Ghana, young Godfred Otuteye dreamed of becoming a fisherman. “I looked up to the fishermen. I wanted to be like them, to go out to sea and confront the elements,” he recalls.

But Otuteye’s mother had other plans for her youngest son. She wanted him to be the first of her six children to receive an education. With her encouragement, Otuteye left the small tropical village at age 12 to attend boarding school 30 miles away. It was the start of an educational journey that would earn Otuteye an undergraduate degree at Harvard, an MBA from the University of Southern California, and eventually land him the prestigious title of president and CEO for Money Mailer LLC, a franchise front-runner in the \$41.9 billion direct mail industry.

On the Rise

Otuteye is just one of many minority executives who have risen to the upper levels of franchise companies across the country. With so much attention on franchising as a business opportunity, it’s easy to forget that there are many career opportunities in franchising as well—and not just flipping hamburgers.

Yoshino Nakajima, vice president of international franchise development at Home Instead Senior Care, had always wanted to get into international business. Seven and a half years ago, shortly after

Communism fell in Poland, she had her opportunity when two of her friends—who happened to be Polish citizens—wanted to get into the restaurant business. With no real restaurant experience, Nakajima, her two friends, and two additional partners bought a master franchise agreement for Blimpie’s Subs and Salads in Poland.

In her quest to find out everything she could about franchising in Poland, Nakajima came in contact with Paul Hogan, president of Home Instead, through a mutual friend. She was confident that Home Instead would be perfect for her home country of Japan. So Nakajima set about finding a buyer for the master franchise license of Home Instead in Japan, thus launching her now five year international development career at Home Instead.

What does she like most about her job? The flexibility and autonomy she has, the opportunity to interact with a variety of people from varying

backgrounds, and the travel. "The way I run my department," says Nakajima, "it's like I'm running my own business. Plus, I get to work with corporate staff and franchise owners both here and abroad. It's great."

Never-Ending Excitement

"Franchising is a very interesting business structure," says Roberto Calderon, CEO of Beverly Hills Weight Loss and Wellness. "One minute you're working on a marketing campaign for your franchisees, next you're reviewing legal documents, the next you're opening a new store, and then you're reviewing the P&L [profit & loss] statements of the company. You never get bored."

Originally from Chile, Calderon came to the United States seeking a degree in hotel management at Florida International University. He's been CEO of Beverly Hills Weight Loss and Wellness for a year and a half, but he's been in franchising for over twenty years, starting in the hospitality industry in various jobs and working his way up. Now he runs a team of twenty five people at Beverly Hills Weight Loss' corporate offices in Guilford, Conn.

Arlene Lewis got into franchising through Corporate America. A biology major, she worked at ExxonMobil for more than sixteen years in operations management and other positions. The last three years of her career at Exxon, she worked in the company's co-branding division, which put her in contact with fast food restaurants. The franchise bug had bitten. From Exxon, Lewis went to AFC and spent four years developing non-traditional units for Popeye's (i.e. airports, gas stations, hospitals, universities, etc.). Now vice president of national franchise development at Wendy's, Lewis also likes the flexibility and varied nature of her job. "I interface with engineers and construction teams, real estate people and operations employees. I work with entrepreneurs and help them turn their dreams into reality. I even like contract negotiations," says Lewis. "Some people



Yoshino Nakajima

don't like this aspect of the business, but I really enjoy it."

"Franchising provides a lot of creativity and room to be successful," adds Calderon. "In other industries, you specialize in one area. In franchising, it's imperative that you diversify." He also sees a real advantage to minorities and immigrants in franchising. "Minorities that come from other countries are seeking the American Dream," he says. "They will do everything to accomplish that. They are very hard working and set very high standards because they did not have the same opportunities back home."

"All We Wanted Was a Chance..."

Otuteye agrees. "Where I came from, all we wanted was a chance to improve our lives," he says. Otuteye was encouraged by such opportunities in America. "I saw ordinary citizens take \$1,000 or \$5,000 and get started in business. After five or six years of struggling, they would get a break and suddenly have a \$50 million company."

As a result, Otuteye feels at home in the Money Mailer corporate environment, mostly because of the entrepreneurial opportunities the

company offers its franchisees. He also wants to make sure that his company offers others the same opportunity given him throughout life. So he started programs such as the Money Mailer PowerStart Program for qualified franchisees who have the drive, determination and aptitude, but may lack some of the capital.

Whether it's food service or senior care, weight loss or direct mail, minority executives have found great opportunities in franchising. The varied and challenging environment of franchising management provides just the right combination of corporate structure and entrepreneurial spirit for many executives. And with hard work and dedication, many minorities have risen to the top. It really is no mystery, says Calderon: "[In franchising] if you give people the right tools, they will succeed." ■



Sonya Thorpe Brathwaite is director of U.S. emerging markets for the International Franchise Association. She can be reached at 202-662-0784 or via e-mail at sonya@franchise.org.

IFA Educational Foundation: *Training Tomorrow's Franchise Leaders Today*



By Ken Myres



When I was in college in the '70s, an education degree was a default for those who couldn't cut it in pre-med, pre-law, business or other "nobler" fields of study. The salary ranges for new teachers was almost at poverty level and their professional status was often compared to that of a "babysitter." Much has changed in education over the past 30 years in terms of compensation, recognition and respect, and my experience over the past three months with an IFA Educational Foundation program and a high school marketing class from the Yvonne A. Ewell Townview Center in Dallas has shown me why. The experience also demonstrated not only the opportunity and benefits that franchisors and franchisees can gain from "investing" in such a program, but also the obligation and responsibility we have to educate and enrich our companies, our industry, our kids and our futures.

How It All Started

John Reynolds, president of the IFA Educational Foundation, contacted us at Tony Roma's last fall requesting our help with a "pilot program." The program was funded with a grant from the PepsiCo Foundation and was designed to introduce minority youth to franchising, show them the many facets of developing and operating a franchise business, and discuss future franchise career options for them. "One of the objectives of the IFA Educational Foundation is to promote a better understanding of franchising, and the Entrepreneurship Program was a great way to help achieve this goal," said

Reynolds. We have had excellent participation from franchisors like Tony Roma's who are helping support the program at the local levels."

Five programs were conducted in cooperation with Students In Free Enterprise (SIFE) for the college-based programs and Distributive Education Clubs of America (DECA) for the high school programs. Three high school programs were selected: Dallas, New York and Tampa. Tony Roma's is headquartered in Dallas and we volunteered to act as sponsor, mentor and cheerleader for the Townview Center school.



A First Class Team

Kay Frazier, who coordinated the Townview Franchise project, was introduced to the class and the "team" who would work on the project over the next several months. The team selected their CEO, assigned responsibilities, and dug into the project using tools provided to them by the IFA. The kids used every resource, including Dave Thomas' and



Michael Seid's book, "Franchising for Dummies" and Loren Fosse's Monopoly-type board game "Franchi\$It."

With no lobbying on my part, the team selected a new restaurant concept for their project. The task was to design and develop a "franchisable" concept.

The Townview team went to work with floor plans, menu, financial budgets, operations manuals and procedures, demographics, staffing plan, décor etc. They even drafted a complete UFOC for the concept.

I volunteered to mentor the team and met with them twice a week. Other Dallas-based franchisors from Genghis Grill, HomeVestors, Pizza Inn and The Dwyer Group also made presentations and helped reinforce the project. We held a "field trip" that included a detailed tour of the Pepsi Bottling Plant in Mesquite, Texas, lunch and dessert at Tony Roma's and a tour of Dave and Buster's for concept ideas. A Franchise Career Day was also held with visiting executives from Tony Roma's, Metromedia Restaurant Group, The Dwyer Group and Pepsi, who discussed career opportunities in franchising and in their industries.

The Real Reward

The bottom line on this investment is incalculable. The personal feeling that comes with teaching new ideas and concepts to students and seeing those ideas evolve into tangible products and learning cannot be measured in dollars and cents or percentage return on assets. I don't know if any of the students at Townview will become franchisees or work as a director of marketing for a franchisor, but I am sure that because of teachers like Kay Frazier and programs from the IFA, these students understand more about our industry, our companies and the opportunities that franchising offers to them.

Contact John Reynolds at the IFA (202-662-0764) for information on how you can participate. ■

Ken Myres is vice president of franchise development of RomaCorp, Inc., the franchisor and operator of Tony Roma's restaurants worldwide.

IFA Educational Foundation Programs in Diversity



Founded in 1983, the IFA Educational Foundation's mission is to advance franchising and the free enterprise system through research, recognition, education. The Foundation is a 501(c)(3) tax exempt organization, and is supported through the generous contributions of IFA members and others.

Franchising Entrepreneurship Program

Sponsored by the PepsiCo Foundation



This program explores ways to attract and train minority and urban youth to careers in franchising. The Foundation has partnered with Distributive Education Clubs of America (DECA) at the high school level and with Students In Free Enterprise (SIFE) at the college level, to develop a franchising course targeted to young people, involve IFA members at the community level, and organize team projects focused on franchising. The grant program provides scholarships to qualified minority students who are engaged in entrepreneurship and franchising studies.

Minority Entrepreneur Scholarship Program

Sponsored by Marriott International



This scholarship program provides tuition assistance to qualified minority college students and adults who are enrolled in programs approved by the Foundation.

Diversity Training Institute

Sponsored by Coca Cola



This program fosters diversity training and awareness for franchise executives. The Institute provides on-line training programs, regional seminar programs, manuals and training materials and case studies.

SHOW ME THE MONEY\$\$\$:

Financing Franchises in Underserved Markets

By C. Everett Wallace



C-A-P-I-T-A-L.

This simple seven-letter word is one of the most difficult to surmount when it comes to starting or expanding a business in underserved and minority communities across this country. Whether the crux of the problem is access to adequate capital, or adequate access to capital, the basic effect remains the same—there are simply fewer opportunities for self-motivated minorities to become entrepreneurs and start businesses in their own communities.

This is especially true when it comes to franchising. A survey by *Entrepreneur* magazine, revealed that the primary sources of funds for most people buying a franchise are personal savings or friends and families. But, this often proves to be a very limited resource for many minority families where the aspiring businessperson may be the first in their family to receive a higher education or to have the ability to amass any type of nest egg to invest in a franchise. There are, however, an increasing number of programs that can be used to help close this “capital gap” and enable more minority and underserved communities to benefit from the opportunities that are being offered by franchisors. A variety of entities, in both the public and private sectors, have been making strides to expand their programs of financial assistance to reach more urban and underserved communities.

Governmental Agencies

At the federal, state and local level, governmental agencies are developing or expanding their financial assistance programs to provide more support for individuals and companies that are interested in opening or expanding their businesses into

economically distressed or “transforming” communities. For many of these agencies, franchises offer the precise type of business opportunity that they are seeking to fund or assist. Some of the most exciting capital assistance programs can be found in numerous agencies within the federal government.

Some of the most exciting capital assistance programs can be found in numerous agencies within the federal government.

For example, the Small Business Administration (SBA) has been a longtime leader in supporting the development of franchise businesses in various categories across the nation. Its 7(a) loan guarantee program has been one of the most highly used programs by franchise (and non-franchise) small business owners for decades. This agency has established a Franchise Registry that works to help expedite the financing process for individuals seeking to buy one of the businesses listed under this program. And, the agency recently announced a series of changes to its SBA Express program that are designed to increase the number of participating lenders in underserved areas and to expand the availability of smaller loan products within these communities. Many of these changes will be of immediate benefit to individuals seeking to finance more “affordable” franchises in their communities.

Developing Underserved Communities

There are many other federal programs that are available to assist in funding potential franchisees and in closing the capital gap in these communities.

Another excellent example is the U.S. Department of Housing and Urban Development (HUD) which oversees a number of programs that are specifically designed to aid in the development or redevelopment of underserved communities nationwide. HUD's Community Development Block Grant (CDBG) program and its Economic Development Initiative (EDI) provide grant dollars to local communities that can be used to support the development of, among other things, franchise businesses that will provide jobs and services in distressed neighborhoods. The department's HOPE VI program is transforming communities that were dominated by older, blighted public housing developments into new mixed-income communities. These communities are rapidly becoming the sites of new business opportunities for the goods and services that are being demanded by the new residents. In addition, the Empowerment Zone and Renewal Communities programs that are administered HUD and the Department of Agriculture (DOA) can provide direct financial assistance to individuals or companies seeking to open franchise businesses in certain designated communities.

The Economic Development Agency (EDA) in the Department of Commerce and the Office of Community Services (OCS) in the Department of Health and Human Services (HHS) provides grant programs that support community-based efforts to expand the development of jobs and businesses. The Department of Transportation (DOT), under its Transit Oriented Development (TOD) and Access-to-Jobs programs has provided grant funds and technical assistance to local transit agencies that are engaged in expanding the business opportunities located at or near their transportation properties.

Direct Financial Support

The Treasury Department through the Community Development Financial Institutions Fund (CDFI Fund) provides direct financial support to community-based financial lending institutions and larger depository institutions that are engaged in funding community economic development activities in underserved neighborhoods, including

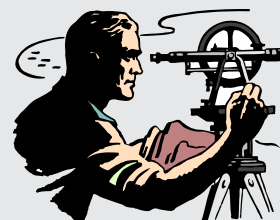
franchise businesses. The CDFI Fund will also administer the New Market Tax Credit Program (NMTC) that will provide \$15 billion over the next six years to support businesses in these communities. Dollars invested with community development entities (CDEs) that have been certified by the CDIF Fund will, in turn, be providing equity and loan funds to businesses that are willing to locate their businesses in targeted communities or expand their existing businesses in these areas.

These are only a few examples of innovative programs that the federal government is offering that can provide financial support for the development of franchise opportunities in minority and underserved neighborhoods. There are also a myriad of state and local financing tools that can be utilized by individuals and companies that are interested in providing much needed goods and services through franchise concepts for the urban and rural markets. Furthermore, there are numerous funding initiatives that are supported by the private and non-profit sectors which are designed to assist minorities, women and other groups that have difficulty in overcoming the capital barrier.

For further information on any of the programs listed in this article, or assistance in identifying state, local or private programs that can provide financial assistance to an individual or business interested in opening a franchise operation in a minority or underserved community, please contact the author at the National Minority Franchising Initiative (NMFII) at www.minorityfranchising.com. ■

C. Everett Wallace is an attorney and financial services consultant who specializes in the areas of franchising and community economic development. He has served in the federal government and has extensive experience in business development and operations in the private sector. He is the vice chairman of the Minorities in Franchising Committee of the International Franchise Association and director and co-founder of the National Minority Franchising Initiative. He can be reached at 615-221-3969 or via e-mail at weitrn@comcast.net.

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Franchise Lending 101

What you need to know when securing financing for your franchise development or equipment purchasing needs.

By Chris Owens



Finding the right financing fit for franchise projects is a challenge, but perseverance and an understanding of your choices can ensure the right program for you. Understanding the types of loans available as well as using a lender who is experienced in franchise financing will help you find the funds necessary to make your franchise a reality. But first a few things you need to know to make this complex process a little easier to understand.

What are lenders looking for?

Specific ingredients reviewed by lenders include: the right location, a choice market, excellent management and an attractive brand name. Lenders also want to know

(Continued on page 34)

What types of loans are available?

SBA 7(a)	Loan amounts: Loan Term: Equity Requirement:	\$75,000 - \$1,500,000 7-25 year amortization 20-30 percent
SBA 504	Loan amounts: Loan Term: Equity Requirement:	Up to \$4 million 20 year maturity / 20 year amortization 25 percent average (15 percent minimum of eligible hard costs, plus working capital and inventory)
Conventional	Loan amounts: Loan Term: Equity Requirement:	TBD (depending on individual lender programs) 20 year maturity / 20 year amortization 25 percent – 30 percent minimum
Business & Industry	Loan amounts: Loan Term: Equity Requirement:	Up to \$10 million Up to 25 years Starting at 20 percent
Supplemental Financing & Leasing	Loan amounts: Loan Term: Equity Requirement:	\$50,000 to \$10 million Full amortization 20 percent minimum

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(Continued from page 32)

your expected revenues and profit, and the market forces that will impact your new business. Knowing what lenders are looking for, in addition to what they can provide, can be critical in the underwriting process.

According to Laurie Ivy, director of hospitality marketing with PMC Capital, Inc., "Knowing the expected time frame from application until the funds are obtained, collateral and credit history requirements, rate expectations, and rate of amortization period for budgeting and cash flow projections will help you develop a realistic expectation prior to applying for a loan," she says. You can obtain some of this information from your franchisor or prospective lenders, as well as other franchisees, who are often extremely helpful in this process.

Getting the right kind of loan
Flexibility is the key. It is critical that you are educated and savvy about your options and the loan packages available to you. What is your ability to obtain funding for a substantial property upgrade? Are there pre-payment penalties if you want to sell your property or is the loan assumable to a qualified buyer? And, what are the best rates and competitive prices? Make sure elements of your program include "non-recourse" option and long-term fixed rate financing.

Does combining loans make sense? Combining loans can help meet overall project costs and, in some cases, reduce your equity requirements. Depending on the nature of the project, SBA financing can be used in larger projects as a companion to other loan programs. This could provide you with increased cash flow through extended repayment terms, no balloon payments and no prepayment penalties.

In addition, supplemental financing programs via Furniture, Fixtures & Equipment (FF&E) leases can bridge the gap between primary debt and equity because the lease amount is pulled out of the total package thereby reducing the amount of equity required as down payment on the loan.

According to Greg Friedman, manager of business development with GMAC Commercial Mortgage Corporation, "Supplemental financing

can increase the total debt on a property to 80 percent Loan To Value when coupled with primary debt and the debt service coverage ratio is greater than 1.25 in the stabilized year. This could help you retain 5 percent to 20 percent of your equity, depending on the project."

What should I look for when making my lending decision?

Like all major decisions, do your homework. Make sure that your "initial savings" are not lost to hidden fees or program inflexibility that won't allow you to react to market forces and stay competitive. For example:

Understand the difference between direct lender and Broker.

A broker is an intermediary between you and a potential lender. This third party relationship can charge you a commission for their services and add a step to the processing of information.

Performance or Demand vs. Permanent Base Loans.

Many local banks offer discounted origination fees and lower interest rates through performance-based loans that could be "called" (i.e. come due) for reasons outside of your control. For example, if the bank experiences a decrease in the amount of deposits, a poorly performing loan portfolio or diminished value from appraisals, your loan could be called through no fault of your own. In comparison, lender-direct or permanent loans respond directly to your ability to make your payments. As long as your payments are made on a timely basis, your property is within reasonable standards, and your taxes and insurance are kept current your loan will not be called.

What is required to process a loan?

- Personal financial statement, resume and two years of personal tax returns from all partners.
- Details on the location (demand generators, competitors, visibility and accessibility from major freeways).
- Pictures of the site.
- Affiliate information on other business(es) owned by borrower(s).
- Indication of desired loan amount,

amount of borrowers' equity contribution and source of that equity.

- Breakdown of the ownership structure (names and percentage of ownership by person).
- A business plan.

Construction deals require:

- Breakdown of the project cost including a land contract, construction bid, FF&E bids, soft costs estimates (i.e. franchisee fees, architect fees, working capital, legal costs, permits, etc.).
- Two years of detailed income and expense projects based on Market ADR's (Average Daily Rate) and occupancies (for hotel properties).

Acquisition deals require:

- Copy of the purchase contract.
- Historical tax returns from seller for three years.
- Year-to-date income and expense statement for property with comparable period from prior year.
- Indication of any improvements needed at the site.

Note, each lender has their own loan approval that can/will vary from the above.

What does the future hold?

Overall, even in a "sluggish" economy, many industries, like hospitality, remain sound with more projects expected. Most lenders agree that loans will still be available, albeit at lower levels compared to pre-1999. Whether it is acquisitions and refinancing, new construction to bridge loans or equipment financing, the right program is available for you to ensure the success of your project.



Chris Owens is director of construction and building materials, Choice Hotels International, Strategic Partnerships Division. He can be reached at 301-592-5069. Special thanks to PMC Capital, Inc., and GMAC Commercial Mortgage for contributing to this article. For more information about specific lending programs from these Choice Endorsed Lenders, contact Laurie Ivy at 972-349-3207 or Greg Friedman at 404-531-3049.



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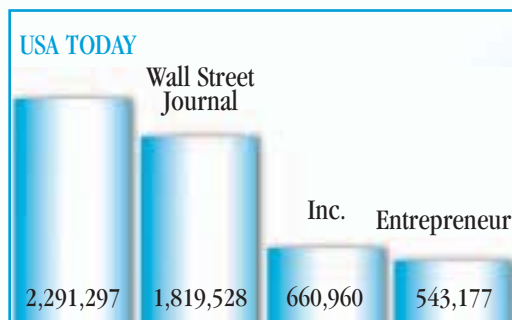
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Keys to Building Wealth Through Hotel Ownership

By Nicole Johnson-Reece, Director of Multicultural Marketing, Cendant Corporation, Hotel Group



Minority groups have played a significant role in the hospitality industry for years by serving as the backbone to the smooth and successful operation for many of our nation's hotels. Yet, despite increased employment and business opportunities in the hotel industry, minority groups still find it difficult to reach upper levels of management in many of the larger hotel chains. And minority entrepreneurs often face challenges -- including financial barriers -- that can make it difficult to realize the dream of owning and managing a hotel. In the hospitality industry, these challenges are reflected in the under-representation of African-Americans, Native Americans and Hispanic hotel owners relative to their populations as a whole.

A number of reasons can be given to explain this void in the ownership ranks: a lack of opportunities for upward mobility; a negative perception by these groups about potential careers in the industry based on historic roles and financial challenges; misperceptions regarding the cost of owning a hotel; and, most importantly, a lack of awareness on the part of minority entrepreneurs about existing opportunities within the hospitality industry.

Cendant Corporation's hotel group recognizes the need to empower these minority groups and bring ownership opportunities within their reach. The Cendant Keys to Success - Building Wealth through Hotel Ownership program is designed to attract more minority entrepreneurs into the Cendant family of hotel brands by building awareness of the opportunities that exist in hospitality.

With brands including Super 8®, Days Inn®, Ramada®, Travelodge®, Howard Johnson®, Knights Inn®, Villager, Wingate Inn® and AmeriHost Inn®, Cendant is the

world's largest lodging franchisor. But well-recognized brands are just the foundation for successful franchising. The fundamental reason for Cendant's success is a single-minded focus on delivering value to franchisees and helping them achieve their financial objectives.

Cendant offers entrepreneurs strategic national marketing and advertising programs, central reservations, on-going training, state-of-the-art technology and many other systems designed to help entrepreneurs operate a hotel.

There are six elements of the Keys to Success program:

- 1) Development allowances are offered for qualified franchisees to assist with the financial challenges entrepreneurs face when trying to develop a new business.
- 2) Cendant also leverages its relationships with numerous lenders to offer financing referrals and introduces new franchisees to these sources. In addition, Cendant seeks out funding sources for minority business ventures.
- 3) Cendant may also require that a property be matched with a professional hotel management company, depending on the franchisee's prior hotel management experience. This allows franchisees to have someone on-site who is familiar with the ins and outs of the business.
- 4) The program also has a mentoring component that provides a positive learning environment which teams new franchisees with coaches to guide them through standards, operations, and sales and marketing strategies. These coaches are experienced, successful franchise owners who have volunteered to serve as mentors for their fellow franchisees.
- 5) New franchisees are further provided a dedicated single point of contact to assist with a smooth opening process.
- 6) Cendant offers training to all franchisees through a state-of-the-art training facility

located at its headquarters in Parsippany, N.J. Training is required for all new owners and general managers and is designed to give franchisees the tools and information necessary to meet brand standards. Cendant is also a member of the National Minority Franchising initiative, which runs franchising seminars across the country. This is an excellent opportunity for a potential owner to learn more about Cendant and the franchising process.

Having a minority franchise development program in place is only one step in creating awareness about business ventures in the hospitality industry. Franchisors have a responsibility to ensure that minority groups are educated about the programs that exist to support them and understand the opportunity that lies in hotel ownership.

Over the last few years, awareness about the opportunities that exist in hotel ownership has grown significantly as the result of the efforts of various hotel companies and community groups. There is still a great deal of work to be done to turn that awareness into ownership. However, as the hospitality industry continues to evolve and the role of minority groups changes, business development through franchising will represent significant opportunities for America's future hoteliers. ■



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Understanding the Uniform Franchise Offering Circular

By Hank Doss



One of the most important documents that a potential franchise partner must consider is the Uniform Franchise Offering Circular (UFOC). This document is required to be provided by each and every franchisor who intends to sell the right to franchise. The UFOC is regulated by the Federal Trade Commission and must be updated on an annual basis.

Although UFOC's may vary somewhat in format, most will contain at a minimum the following items:

- The franchisor (predecessors and affiliates)
- Business experience of the franchisor
- Litigation (dating back at least 10 years)
- Bankruptcy (if applicable)
- Fee structure
- Franchisee's obligations
- Franchisor's obligations
- Financing
- Territory and how it is protected (if applicable)
- Trademarks
- Proprietary information
- Renewal/termination/transfer terms
- Public figures
- Earnings claims
- List of outlets (current and former franchisees)
- Financial statements
- Contracts (i.e., franchise agreement)
- Receipts and various amendments like the ones specifically required by some states.

Read It Carefully, Understand the Details

This document may appear to be very laborious to read; however, I cannot stress enough the importance that each potential franchisee thoroughly read it (page by page) and understand it prior to signing on for any franchise opportunity. An attorney who

specializes in franchise law should also evaluate this document, in the early stages of the process.

I would recommend that one pay close attention to the franchisor's litigation history. There should be much concern if issues are taken into litigation on a regular basis as opposed to being settled within the family. It would also be very wise to call as many of the existing franchisees as possible to ascertain exactly how they feel about this as a business opportunity.

There will be two important documents enclosed within the UFOC. These documents are the development agreement and the franchise agreement. These two agreements will represent the essence of your obligation to the franchisor and the franchisor's obligation to you as the franchisee. Read and understand every detail of these two "docs within the doc." They will determine your business relationship for many great years to come.

Finally, be sure to write down all of your questions. Do not obligate yourself until the franchisor's representative has satisfactorily answered all of those questions. Think about it. It is really no different than any other important decision that we must make in life. As we go through our process of due diligence, we make sure that we have all our facts in order before we make the leap. Then we wrap our findings up with the true passion that we have for our endeavor, add to that our sweat and financial equity for the outcome of what we plan to be a successful venture/journey. I wish you much success on your journey. ■

Hank Doss is director of new business development at AFC/Church's Chicken, Inc. He can be reached at 301-604-4447 or e-mail at hdoss@afce.com.

Territory Development: What Every Franchisee Should Know

By Lynette McKee



You've done all the research. You've narrowed your options. And you've finally decided on the franchise concept that is right for you. But have you thought about how you plan to grow your business over time?

For instance, do you plan on opening one unit now, and then—if business is good—consider opening an additional unit later? Or, do you plan on opening several units over the next several years? These are questions that need to be answered before you sign your franchise agreement, because each scenario requires a slightly different agreement and presents its own set of opportunities and challenges.

Franchise companies typically offer two types of development agreements: single unit franchise agreements and multi-unit franchise agreements.

Single Unit Franchise Agreements

Newer franchise companies may initially offer single unit franchise agreements, particularly when trying to get the concept up and running. Either through solicitation, or random call-ins by interested parties, the franchisor may choose to allow one unit of business to be opened by a franchisee. This approach typically makes it easier to bring new franchisees into the system because the field of potential franchise candidates is expanded significantly.

If you are considering a single unit franchise agreement, there are important factors to be evaluated. For instance, are the markets co-developed by both the company and the franchisees? Is there a potential for encroachment of the business by the

franchisor or other franchisees in the market? How are the marketing efforts for the DMA (Designated Marketing Area) or ADI (Area of Dominant Influence) handled? Is there a marketing co-op? What percentage of voice does each individual franchisee have in the territorial marketing co-op?

Another point to consider is how does the franchisor handle the request for site development by the franchisee? Is it a first come first serve basis? One way to have a smooth process is through a Trade Area Reservation System. It avoids the issue of which franchisee brings in the trade area-site first. Under the reservation system, a franchisee may formally request the exclusive right to locate and secure a site in a designated trade area, for a given fee and in a specific time frame. One example of the reservation system would be to structure a six-month exclusive agreement for a defined trade area with an up-front fee that is approximately five percent of the initial franchise fee. During this time the franchisee may locate and secure the site without the worry that another franchisee of the system may deliver a site to the franchisor first. This fee may be non-refundable, but is applicable to the initial franchise fee when a site is approved by the franchisor.

Multi Unit Franchise Agreement

Most larger franchisors tend to manage their growth through multi-unit development. The franchisor may define its territories by DMA's, counties, states or other various mapping definitions. Business segments that are larger in nature, such as the restaurant industry, find multi-unit development is a more manageable system for the franchisor. Fewer, but more sophisticated franchise business partners,

obtaining the right to develop a territory or territories, is the preferred growth strategy.

To achieve the multi-unit commitment, the franchisor will enter into a development agreement (exclusive or non-exclusive) with the franchisee. Typically, the franchisor and franchisee will work together to define the territory, along with the term of the agreement. For businesses that are more complex, or territories with challenging development restrictions that extend the usual development time frame, the franchisor and franchisee should collectively evaluate and determine the term of the agreement.

The size of the territory is also taken into consideration. For example, a franchisee purchasing the rights to build a full-service restaurant concept may commit to develop no more than one restaurant in every 12- to 18-month period. However, a smaller type business owner may feel that he or she has the ability to grow several over a 12-month period. The type of real estate commitment may also play into this

development scenario. Leased properties, with conversion obligations may develop faster than a new, ground-up obligation.

The initial fee for development agreements may vary from a separate up-front fee to a portion of the franchise fee being paid at the beginning of the relationship. If the franchisor is in need of moving a territory quickly, they may even opt to defer or waive the development fees. In years past, we saw many franchisors allowing territories to be tied up with no pre-defined obligation to develop. However, this practice is no longer in vogue. The name of the game is development, and the franchisor is counting on the franchisees to do their part to help it grow the system. An upfront development fee is often incentive enough to guarantee development.

To go one step further, the franchisor may also create the master license structure. This is basically having a sub-franchisor in the middle between the franchisor and the franchisee. Over the years several franchisors have taken this approach to growth, especially in inter-

national markets. The master licensee has the ability to offer smaller territories or single-unit sites within their larger territories.

The pitfall for both franchisor and franchisee is when the master license owner may not be a good partner to either party. If this occurs, all involved can suffer. However, if the master licensee is a prudent businessperson, and aggressive, it may be a speedy method to placing locations quickly.

The only word of caution is to check out any system you may have an interest in pursuing. Doing your homework on the front-end, including speaking with the existing franchise community goes a long way in making the right decision.

Lynette McKee is vice president of franchise development at Metromedia Restaurant Group, franchisors of Ponderosa, Bonanza and Bennigan's. She can be reached via email at lmckee@metrogroup.com.

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Considerations In Choosing A Business Form

By Kenya L. Scott



One of the decisions that a new franchisee must make when undertaking this new endeavor is the business form it will utilize to conduct its business. Some of the major considerations when making this decision are the cost, the tax implications and the imposition of liability on the individuals involved with the endeavor.

Cost and Simplicity

If liability and tax considerations are not important to the new franchisee, then a sole proprietorship is preferred from a cost and simplicity standpoint. Most states do not require any particular filings for this business entity.

A C-corporation is also a cost-wise choice. The filing fees incurred in establishing a corporation in most states is minimal. In addition, the preparation of articles, bylaws and organizational minutes can be completed in a short period of time. For a corporation to qualify as an S-corporation, the IRS requires the completion of an application and the payment of a fee in addition to the satisfaction of the requirements of a C-corporation.

The controlling documents of an LLC and limited partnership ordinarily contain provisions which address what happens when individuals buy or sell interest in the entity. The drafting of these provisions result in additional time spent on organizational matters, in particular how the entity will go forward as an ongoing concern if an individual no longer wishes to be a part of the business.

Federal Income Tax Concerns

There are various tax issues that must be considered when determining which business entity should be formed for your franchise. With a franchise as a sole

Below is a summary of some of the corporate forms that are available:

Sole Proprietorship

An organization may be conducted by one person as a sole proprietorship.

General Partnership

A general partnership must have at least two partners. Each general partner of a general partnership has unlimited liability for the debts and obligations of the partnership.

Limited Partnership

A limited partnership must have at least two partners, a general partner and a limited partner. General partners have unlimited liability for the debts and obligations of the partnership. The general partner of a limited partnership may be a corporation or limited liability company, in which case the ultimate beneficial owners may be insulated from the partnership's liabilities as described below.

Limited Liability Company

A limited liability company (LLC) is an entity which provides for limited liability for its members. An LLC can either be member-managed or manager-managed.

C-Corporation

A C-corporation is an entity that has officers, directors and shareholders.

S-Corporation

An S-corporation is a corporation that has elected to be treated as an S-corporation for federal income tax purposes.

proprietorship the business income will be passed through to the sole owner. This business income will be reported on a Schedule C that accompanies one's personal 1040 tax return. The income will also be included on Line 12 of your 1040. This income will be taxed at your personal income tax rate, which ranges from 15 percent to 39 percent.

When choosing to operate as a LLC, LLP, or general partnership, the tax implications are similar to those of the sole proprietorship. Income from a single member LLC will also be reported on the Schedule C, exactly in the same way that the sole proprietorship is reported. All income from the LLC's and LLP's will pass through to the partners or members of the entity and be reported and taxed on their individual 1040's. The LLC's and LLP's are required to file the income tax forms, but LLC's and LLP's do not pay federal income taxes.

If a franchisee selects the C-corporation then he or she will have to submit a tax return for the corporation. The income of the corporation will be taxed at 34 percent (if the corporate income is less than \$10,000,000). Additionally, when the income of the corporation is distributed to the shareholders they will pay income taxes on those distributions. This double payment of taxes is often referred to as double-taxation.

One method of avoiding the double taxation while retaining the corporate form is to become an S-corporation. The IRS requires that an application be filed with it to attain S-corporation status. The S-corporation does not pay taxes on the income earned; rather the income earned is passed through to the shareholders and taxed at the individual shareholder's individual tax rate.

Liability and Asset Protection

Liability and asset protection issues arising in connection with the use of corporations, limited partnerships, and LLCs are complex and varied. While each entity provides limited liability for owners, the substantive rules and procedural applications of legal liability theories often result in different outcomes for similar conduct. It is important to note that an entity does not protect an owner-employee from the owner-employee's acts since an agent is

always liable for the agent's acts. For example, if an owner-employee commits a negligent act while in the scope of employment for his or her corporation, the agent, individually, as well as the corporation, may be held liable for such acts.

Below is a general overview of the personal liability that may arise from these corporate forms:

Sole Proprietorship

The individual is solely liable for the wrongdoing of the company.

C-corporation and S-corporation

Liability for wrongful acts falls on the company unless it is found that particular individuals within the company played a role in the wrongdoing in their individual capacities.

General Partners

All of the partners are individually liable for the acts of the partnership.

Limited Partnership

The general partners are individually liable for the acts of the partnership. Limited partners who exercise excessive control can also be held liable as a general partner.

Limited Liability Company

All members of an LLC, including member managers, are afforded limited liability, except in limited circumstances.

Factors such as changes in the tax law or laws applicable to certain entities and the progression of the franchisee will affect what business form is the best choice at a given point and time. Because of the evolving nature of these factors, an advisor must constantly review his or her conclusions concerning the business form that is best for a particular franchisee. ■

Kenya L. Scott is an attorney with the Jenkins & Gilchrist law firm in Dallas. She can be reached at 214-855-4460 or via e-mail at kscott@jenkens.com.



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Franchising Your Business: *Pathway to the American Dream*

By Carl Jeffers



Many small business owners and creators of new concepts dream of one day being the next “McDonald’s” or of seeing their name on the marquee of hundreds of stores and outlets all over the country as the ultimate realization of the “American Dream,” that euphoric concept we have idealized into a picture of a wonderful home with a landscaped yard with two or three cars and a golden retriever happily scampering around the backyard pool. Well, the American Dream may mean different things to all of us, but one thing is quite certain, expanding your business by opening franchise units may certainly be one proven path to attain that dream, in whatever form or shape it takes for your personal goals and aspirations.

In America today, franchising is a \$1 trillion dollar-a-year slice of the economy. There are over 300,000 individual franchise units and outlets operating all over the country.

Without question, the opportunity to expand and grow your business by franchising can be a lucrative and rewarding way for small-business owners to achieve the American Dream. And for minority business owners, franchising is an untapped reservoir that offers tremendous opportunity for potential success. In 52 of the 100 largest cities in the U.S., minorities now make up the majority of the population. That represents a tremendous opportunity for the development of new businesses and the expansion of viable concepts such as franchise chains.

Indeed, minorities can also utilize the franchise

approach not only to achieve financial success and security, but also to fulfill their dreams for entrepreneurial accomplishment that comes with “owning your own business.” In the franchising formula, the franchisee owners that open stores and outlets under your trademarked name are entrepreneurs who “own their own business,” but they are also part of a team of support and assistance provided by the franchisor that enhances their chances for long term success in their business.

In America today, franchising is a \$1 trillion dollar-a-year slice of the economy.

But what does it take to become a franchisor and develop a franchise network from a small business or concept? And perhaps more importantly, what does it take to develop a successful franchise business? At Intel Marketing, when we work with companies or concepts that want to franchise their business, we always look for three things:

Are the owners or developers of the concept genuinely dedicated to their belief in the concept, and are they willing to commit extraordinary time and effort to building a successful chain?

Franchising can be very successful, but it requires hard work and lots of it. There are no shortcuts. Period. And initially, the owners and developers of the concept will have to wear many hats as they not only continue to refine the concept and run the business, but also serve as head trainers, operations

monitors, bookkeepers and site location specialists. It can be a six or seven day a week responsibility.

Is the concept one that is in some way unique or at least stands out as having the potential to be marketed as a unique, fresh, new or exciting approach in that particular retail or service sector niche?

In short, we have to look for and identify what our strongest marketing angle will be to present the concept or product in the most appealing light to potential customers.

Can the concept be duplicated in other markets besides the ones where it currently operates? Does the concept truly have the potential to become a nationwide or even region-wide chain of 50 to 75 units or perhaps even hundreds of units all operating under the same original operational format that you developed for your first units?

It is vital that your concept has "staying power" and is not a "limited appeal" concept that does not have the potential to be expanded into additional markets.

Once everyone is comfortable with the answers to the above questions, you can then commence working on the formal steps to actually develop your franchise, including raising necessary capital for franchise expansion and putting into place all of the required legal documents and operational tools that are needed to launch a new franchise chain. A franchise consultant can work with you in developing the requirements for all of these areas.

I encourage you to consider franchising your business, as this approach can decidedly accelerate your progress down the road to the American Dream. While that path is never without bumps or detours, taking the "franchise road" to get to that dream is clearly a path offering far more guidance, assistance, and proven "road maps" to help you reach the destination at the other end. Good luck, and let's get started. ■

Carl Jeffers is president of Intel Marketing Associates and CJS InfoConsulting, franchise consulting and information services firms. Intel Marketing specializes in working with small, new or emerging franchisors and franchise concepts. Contact him at cjintel@juno.com or at 213-891-3907.

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Supplier Diversity: The Strategic Advantage

A trait exhibited by most successful entrepreneurs, is the ability to recognize and capitalize on strategic advantages for their businesses. Identifying the opportunity, however, is only the first step.

By Ingrid Robinson



One strategic advantage that is often overlooked by minority business enterprises (MBEs), especially franchisees, is the role supplier diversity initiatives can play in growing their businesses. The intent of supplier diversity initiatives is to provide minority and women business enterprises (M/WBEs) equal access to public and private sector procurement or sourcing opportunities. For companies focused on supplier diversity, it encourages the broadest inclusion of supplier participation, leading to innovations while promoting a diverse business community and encouraging economic development.

Even though many corporations have been involved in M/WBE development for over 20 years, some have not embraced these efforts, dismissing them as “quota” type programs, without recognizing the value-added benefits a diverse supply chain can provide.



In reality, corporations enact supplier diversity initiatives for varying reasons. For some, it is meant to develop an inclusive business culture that enhances their corporate image to their customers or consumers. For others, it involves utilizing a diverse supplier base to add value to their supply chain initiatives, which correlates to reduced costs, and the opportunity to generate new sources of revenue. Although the process and program content may differ from company to company, the fundamental concept for developing M/WBEs is the same, creating a competitive advantage.

Consider...

For those still unsure of whether supplier diversity is a necessary component of today's supply chain for small businesses, franchisees, or major corporations selling to consumers, consider this:

Minority buying power in 1994 was \$950 billion and was calculated to be about \$1.3 trillion in 2000. By 2045, minority purchasing power will more than triple to over \$4.3 trillion. (Source: U.S. Department of Commerce, Minority Business Development Agency.)

Today, women control \$5.2 trillion in consumer spending. Of that, \$3.7 trillion is in personal products and services and \$1.5 trillion in business services. Business-women are the primary decision makers in households, influencing over 95 percent of purchasing decisions. (Source: Women and Diversity Facts 2002.)

The minority population will account for nearly 90 percent of the total growth in the U.S. population from 1995 to 2050. By 2025, the minority population will exceed the non-minority population in five states and by 2050 is expected to be the majority of the entire U.S. (Source: U.S. Department of Commerce, Minority Business Development Agency.) In 1992, over 3 percent of all U.S. businesses were franchises. Of that, almost 12 percent were started by ethnic minorities. (Source: Office of Advocacy, U.S. Small Business Administration.)

Help For Growth

Now you may be asking, how does this information help me grow my business? Here is a good example. A major corporation (Corporation A), has a supplier diversity initiative and is looking for ways to expand their outreach outside of traditional sourcing categories. Corporation A believes that it could save money by consolidating its auto fuel contract by establishing relationships with one or two local gas stations in its regional markets where their trucks refuel on a daily basis. Corporation A then contacts Corporation B and determines that they have three minority or women-owned franchisees in those markets. Corporation A then directly contacts the independent franchisees and negotiates contracts with two of the three franchisees. This allows Corporation A to lower their overall costs by leveraging their fuel volume and reducing the number of suppliers within their supply chain; while supporting their overall corporate supplier diversity initiative. For the M/WBE independent franchisees, additional revenue was generated for their stores.

Over the past 10 years, corporations with franchise initiatives have begun to develop special programs to assist minority and women entrepreneurs who may be interested in becoming franchise

owners. Just as supplier diversity programs differ from company to company, so do M/WBE franchise initiatives. The most common trends among M/WBE franchise initiatives include: financial incentives, business plan development assistance and management training. As you begin the evaluation process to determine which franchise may be best for you, be sure to ask about special programs designed to increase M/WBE franchise participation.

Look For Opportunities

In general, M/WBEs often overlook opportunities to assist each other with business growth. Just as corporations have begun to realize the cost savings and synergies M/WBEs bring to the table, minority and women-owned businesses need to do the same. There are services needed by all businesses such as accountants, lawyers, office supplies and equipment, temporary labor, information technology services, etc. These are all services that could be provided by other minority or women-owned firms.

At this point, some of you may be saying to yourself, "this doesn't sound like such a bad concept, but where would I find other minority or women-owned firms?" The answer is quite simple. There are also minority and women business

development organizations and Chambers of Commerce across the nation with minority and women business development initiatives. The two leading organizations established to foster the growth of minority and women-owned businesses are the National Minority Supplier Development Council (NMSDC) and the Women's Business Enterprise National Council (WBENC). These organizations have established regional affiliate councils across the country that provide services from directory listings, to identification of bid opportunities to business development assistance and much more. More importantly, these regional councils can provide you with access to its network of supplier diversity professionals representing most major corporations.

Of course, the International Franchise Association's Minorities in Franchising Committee is a valuable resource as well.

For more information on these organizations, contact www.nmsdc-us.org or www.wbenc.org. ■

Ingrid Robinson is manager of supplier diversity at the Pennzoil-Quaker State Company, franchisors of Jiffy Lube. She can be reached at 713-546-4828 or via e-mail at franchising@jiffylube.com.

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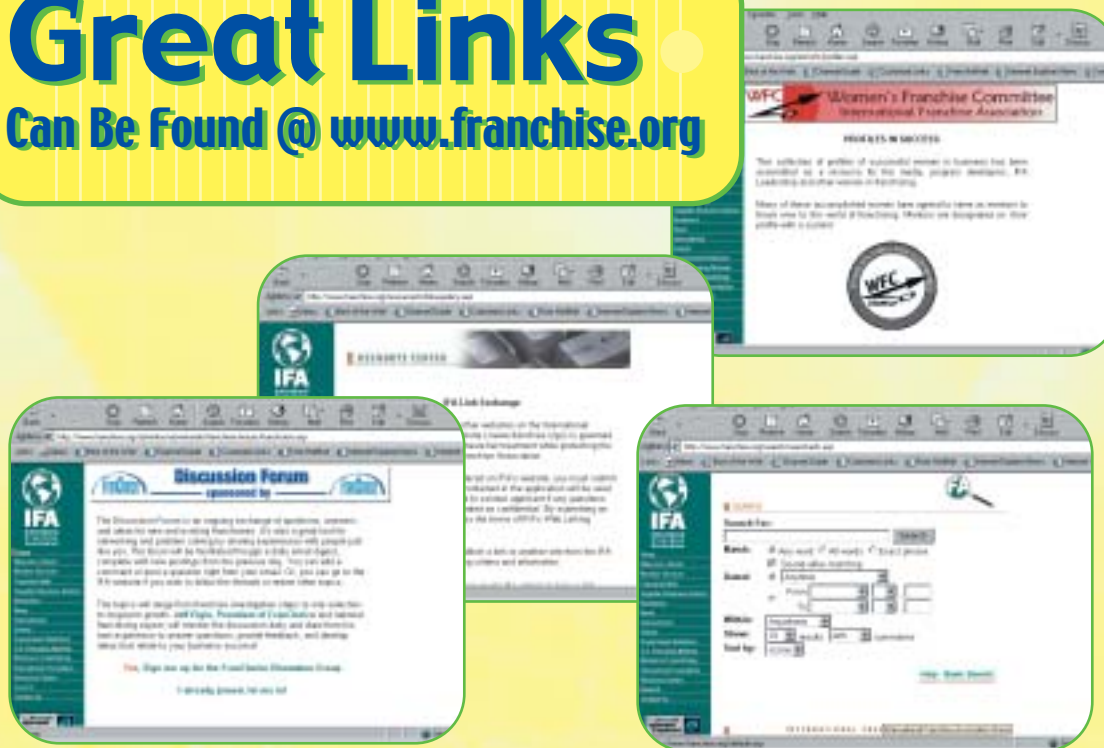
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IFA Programs to Expand Franchising Opportunities For Minorities

The International Franchise Association, through the IFA's Minorities in Franchising (MIF) Committee, has created a number of programs to help increase the number of minority franchisees in the United States. From its inception, the MIF Committee has been an advocate for education and outreach activities that increase the awareness of franchising in minority communities.

MBDCs that participated in 2002 IFA Technical Assistance Program

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1100 Commerce Street
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IFA Technical Assistance Program

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The goal of the Program is to provide MBDCs with the training, materials and ongoing support they will need to help minority entrepreneurs in their communities understand the opportunities available to them in franchising.

IFA Minority College Seminar

The IFA Minority College Seminar is a semi-annual, franchising seminar targeted specifically to minority business and hospitality students. The goal is to educate students on the wide range of franchising opportunities available, both as a career opportunity and as a business opportunity.

The first seminar will be held October 25th, 2002 at Howard University in Washington, DC. Minority students in the D.C., Maryland and Virginia area are encouraged to attend. On Saturday, October 26th, there will be a 1/2 day seminar for the minority community-at-large.

IFA Franchise Outreach Program

The IFA Franchise Outreach Program will establish a network of IFA franchise executives and franchisees that will represent the IFA at franchise outreach events hosted by minority organizations in key regions of the country. This Program will allow the IFA to:

- Increase the number of minority franchisee recruitment efforts that are held each year
- Provide a mechanism to reach a variety of markets at the same time

The Program is scheduled to be up and running

in early 2003. Please check our web site for seminar dates and times at www.franchise.org/minorities.

IFA Community Partners Program

The Community Partners Program is being developed in partnership with the National Congress for Community Economic Development (NCCED) to help franchisors and franchisees utilize the real estate, financing, and training capabilities of community development corporations (CDCs) around the country to increase the number and success of franchise units in urban and rural areas.

The first tool has already been developed: The online **Community-Corporate Registry**. This registry was designed to help franchise companies connect directly with CDCs, and can be accessed directly from the IFAs web site at www.franchise.org/minorities.

IFA Minorities in Franchising Web Site

The Minorities in Franchising section of the IFA Web site has been revamped to become a central resource for prospective minority franchisees and IFA members interested in reaching minority markets. For details, visit www.franchising.org and click on "Minorities & Women" The section can also be accessed directly at www.franchise.org/minorities.

Resources include: minority franchisee recruitment programs; finance options targeted to minorities; IFA and non-IFA seminars and events for prospective franchisees to learn about franchising, starting a business, and writing a business plan; articles and case studies related to minorities in franchising. Additionally, information and resources through IFA's partnership with the National Congress for Community Economic Development will be posted as will articles and case studies related to minorities in franchising. ■

For information, please contact Sonya Thorpe Brathwaite, director of U.S. emerging markets at 202-662-0784 or via email at sonya@franchise.org.



C H O I C E H O T E L S I N T E R N A T I O N A L ®

Choice Hotels International is one of the world's largest hotel franchising companies with more than 5,600 hotels open and under development worldwide. The company franchises under the Comfort Inn, Comfort Suites, Quality, Sleep Inn, Clarion, MainStay Suites, Econo Lodge and Rodeway Inn brand names.

"With over 60 years of successful hospitality and franchise development experience, Choice Hotels understands what it takes to succeed and how to get there," says Paul Sterbini, vice president, Franchise Sales for Choice Hotels. "Our mission is clear: to provide our franchisees with a solid return on investment. Particularly in today's challenging economic environment, franchisees who join the Choice Hotels family can feel secure knowing that they are backed by the reservations power, marketing muscle and vast array of support services only a franchise giant such as Choice Hotels can offer."

According to Sterbini, Choice Hotels has recognized that certain groups are under-represented in the hotel industry and has just launched a new incentive program to actively court these groups. "This new incentive is specifically designed to attract African-American, Hispanic and Native American entrepreneurs who wish to build a Choice brand hotel, convert an existing hotel to a Choice brand, or purchase an existing Choice brand hotel."

Approved applicants will receive up to \$200,000 in incentives for a midscale brand hotel or up to \$50,000 for an economy brand hotel. To be eligible for the incentive, minority owners must hold a 51% ownership stake and meet all other franchise criteria.

What can franchisees who take advantage of the incentive expect in return?

"From marketing to reservations, from opening assistance to ongoing, one-on-one

field support, we do it all," Sterbini says. Specifically, Choice Hotels provides:

Strong reservations delivery. Choice's state-of-the-art central reservations system offers a competitive advantage by listing each hotel not only by geographical location, but also by proximity to major events and attractions. Reservations are driven via calls to Choice's toll-free number, 800.4CHOICE; its web site, www.choicehotels.com; or third party global distribution systems (GDS) – all channeling business to Choice brand hotels.

Marketing muscle. Choice brand hotels benefit from strong, consistent marketing programs that reinforce Choice brand images in the marketplace. The company's signature campaign – "The Power of Being There. Go" – is imprinted in the minds of travelers worldwide via multi-million dollar advertising expenditures on national network and cable television, national network radio, and print advertisements in such widely read publications as *People Magazine* and *USA TODAY*. And each campaign is backed by a value-added promotional offering that complements Choice's core messages of value, worldwide locations and the sheer joy of the travel experience – in short, the power of being there.

Effective property management system. Choice's proprietary property management system, Profit Manager, ensures that each Choice brand hotel operates at its most cost-efficient and helps franchisees achieve maximum RevPAR performance. The system effectively manages inventory, rates and reservations.

New hotel services and support. New to the industry? Choice Hotels provides each of its franchisees with the support and expert consultation needed to hit the

ground running. A New Hotel Opening Specialist visits each hotel to assist with initial sales and marketing activities and to help each hotel achieve fair market share as quickly as possible. Additionally, a corporate orientation program prepares franchisees as they enter the system – giving them the skills needed to operate successfully, helping them develop an effective marketing plan and demonstrating how to fully utilize the array of services Choice Hotels has to offer.

Ongoing field support. Choice Hotels boasts one of the lowest field services director-to-hotel ratios in the lodging industry, meaning that each of the company's field experts has plenty of time to focus on each hotel. Field experts act as a single point of contact, helping hotels through the opening process, providing revenue generating assistance and operations support, and tapping into Choice's training, services and resources on a hotel's behalf.

"We are committed to recruiting new minority franchisees and invite you to join the Choice Hotels family," says Sterbini. For more details regarding this incentive program or to learn more about franchise opportunities with Choice Hotels call 800.547.0007, visit choicehotelsfranchise.com or email Choice Hotels at franchise_sales@choicehotels.com.

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The National Minority Franchising Initiative **NMFI**

The Definitive Annual Directory of over 590 Franchises
Actively Seeking and Supporting Minority Franchisees

MINORITY FRANCHISE GUIDE
2002 Edition

For the most comprehensive, up-to-date information on
Minority Franchising, visit www.minorityfranchising.com

If you are interested in reaching the minority market,
visit our website at www.minorityfranchising.com
or call us at 510.839.5471 or 615.221.3969.